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B1, 1.4(D)

Brian R Naranjo 03/14/2002 08:28:05 AM From DB/Inbox: Brian R Naranjo

Cable Text:
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TELEGRAM

March 14, 2002

Chron in

To: SECSTATE WASHDC - ROUTINE
Action: EB
From: AMEMBASSY CARACAS (CARACAS 653 - ROUTINE)
TAGS: EPET, ECON, CU, VE
Captions: None
Subject: VENEZUELA-CUBA OIL ACCORD CONTINUES TO GENERATE
CONTROVERSY
Ref: None

1. Classified by Ambassador Charles Shapiro; reason 1.5
(B) and (D).

2. (U) Summary: Venezuela's preferential oil deal with Cuba is providing more fuel to the political fire in the highly charged atmosphere in Caracas. The generosity of the Chavez government in response to a Cuban payments problem has provided ammunition for the Chavez opposition and led to opposition calls for an investigation. The Cuban Government reportedly owes US\$126 million on a total \$603 million bill for shipments to date under the Agreement. End Summary.

BACKGROUND

3. (U) Under the terms of the Venezuela-Cuba Cooperation Agreement (Convenio Integral de Cooperacion) signed in October 2000, Venezuela is obligated to provide Cuba with crude and/or products up to a daily total of 53,000 barrels. Signed just 11 days after signature of the Caracas Energy Accord (Acuerdo Energetico de Caracas) with the GOV's ten traditional Central American and Caribbean energy partners, the Agreement's critics claim it gives Cuba substantially more favorable terms.

4. (U) Critics report that the ten members of the Caracas Energy Accord together receive 78,000 bpd for a combined population of 46 million. Cuba, with a population of 11 million, could receive up to 53,000 bpd, a proportionally larger amount of oil. Venezuela exports to Cuba on a CIF (covering cost, insurance, freight) basis while exports to other countries are handled on an FOB basis (free on board, i.e. the buyer pays insurance, transport costs). While the Caracas Energy Accord stipulates that the ten member countries must import the crude through their own ports for use only in their internal markets, the Agreement with Cuba does not stipulate a destination port or that the oil must be used only in Cuba's internal market. Newspapers here have highlighted UN statistics that Cuba began to export oil in 2000 and have inferred that Cuba is re-exporting Venezuelan oil.

5. (U) Finally and most importantly, Cuba receives substantially more favorable payment terms. The Agreement establishes a mixed payments regime, based on the same scale applied to the ten countries covered by the Caracas Energy Accord, i.e. when the price per barrel is \$15 per barrel, five percent of the total bill is eligible for long term financing; at \$20 per barrel - 10 percent; at \$22 per barrel - 15 percent; at \$24 per barrel - 20 percent; and finally, at \$30 per barrel - 25 percent. In the case of

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the Caracas Energy Accord countries, this long term financing is for 15 years at two percent interest with a one year grace period. For Cuba, the grace period has been extended by one year. Cuba has also received a short term financing benefit not applied to other Petroleos de Venezuela (PDVSA) commercial contracts, i.e. 90 days at two percent. All other PDVSA contracts are written for 30 day terms.

CUBA ASKS FOR DEBT FORGIVENESS

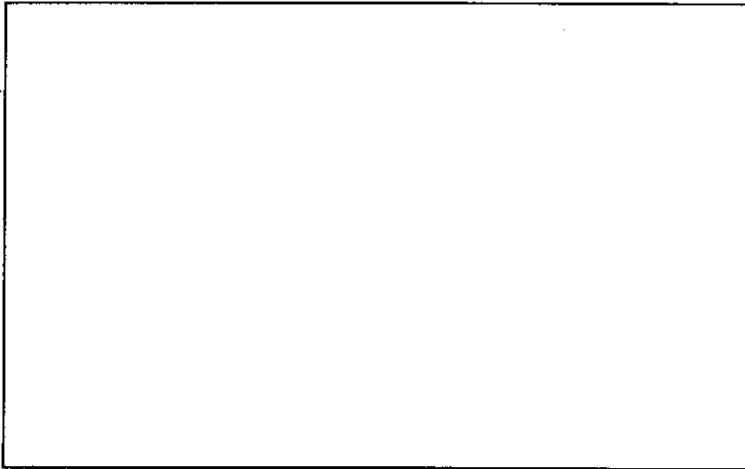
6. (U) In February, the Caracas press reported that Cuba had approached the GOV in November 2001 to request debt forgiveness, citing the damage caused by Hurricane Michelle, the drop in tourism receipts following September 11, and the fall in nickel prices among other factors. In meetings held on November 14 and 15, then PDVSA President Lamedo, the PDVSA Board and the Acting Minister of Energy and Mines agreed not only to reprogram Cuba's fourth quarter debt but also to continue with the export program. The opposition, speaking through the local press, cites this as yet another sign of the GOV's benevolence towards Cuba, and has entered into a debate over how much Cuba owes the GOV. They have also called for investigation of the deal.

7. (U) The local newspaper El Universal, claiming to be reporting from a PDVSA document, reported that by the end of January 2002, Venezuela had shipped 108 cargoes under the terms of the Agreement for a total value of \$603 million. According to El Universal, the GOV had received 1,680 promissory notes from Cubapetrol corresponding to the 108 shipments. These represented financing for \$109 million of the total of \$603 million billed in the 15 months since October 2000. This amount plus interest yields a total debt of \$126.4 million through January 2002.

GOV POSITION

9. (U) Responding for the GOV, MRM Vice Minister Bernardo Alvarez has gone on the record to state that Cuba is a strategic market for Venezuela. According to Alvarez, the GOV sells oil to Cuba through third parties as well as under the terms of the Agreement. According to Ministry figures, between 2000 and 2001, the GOV had supplied only 49,800bpd to Cuba under the Convenio: 33,900 barrels of crude and 15,900 barrels of products. Through third parties in the same period, the GOV provided additional product to Cuba. Alvarez underlined that the GOV had not diverted supply from other customers to give it to Cuba. This oil is simply that that had always gone to Cuba through third parties.

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Additional Addressees:
None

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E.O. 12958: DECL: 03/11/12
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End Cable Text

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